

SENATE BILL REPORT

SSB 6874

As Passed Senate, February 17, 2006

Title: An act relating to tax incentives for persons who extract, manufacture, or process timber and timber products.

Brief Description: Providing tax incentives for the timber and timber products industries.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Doumit, Zarelli, Hargrove, Morton, Sheldon and Rasmussen).

Brief History:

Committee Activity: Ways & Means: 2/2/06, 2/16/06 [DPS, w/oRec].

Passed Senate: 2/17/06, 40-4.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6874 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair, Operating Budget; Brandland, Parlette, Pridemore, Rasmussen, Regala, Roach, Rockefeller and Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senator Fairley.

Staff: Terry Wilson (786-7433)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are no deductions for the costs of doing business. Although there are 9 different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for wholesaling, and 1.5 percent for service activity.

Preferential B&O tax rates have been provided by the Legislature in recent years for aerospace and semiconductor microchips as tax incentives.

Summary of Bill: A preferential B&O tax rate of 0.2904 percent is provided for extracting or extracting for hire timber or manufacturing or processing for hire timber and timber products into pulp, paper, lumber, and engineered wood products, and to sales by these persons of the timber and wood products at wholesale. The preferential tax rate expires July 1, 2024.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2006.

Testimony For: This is a rural industry. The costs of doing business are increasing. The timber excise tax is the highest in the nation. The state needs a vibrant forest products industry. The unemployment rate is high. Plants have been downsizing and closing. This helps the industry remain competitive.

Testimony Against: None.

Testimony Other: The bill needs some clarifying amendments.

Who Testified: PRO: Eveleen Muehlethaler, Port Townsend Paper; John Ehrenreich, Wash. Forest Protection Assoc.; Bob Dick, American Forest Resource Council; Martin Flynn, Wash. Farm Forestry Assoc.; Steve Fluke, Mike Hener, Woodworkers IAM.

OTHER: Gil Brewer, DOR.

House Amendment(s): The House amendment phases in a lower B&O rate: 0.4235 percent applies from July 1, 2006, to July 1, 2007, and 0.2904 percent applies from July 1, 2007, to July 1, 2024. The amendment allows the lower wholesale B&O rate for out-of-state extractors or manufacturers, not just in-state extractors and manufacturers. The amendment allows the lower B&O rates for manufacturers of timber into timber products and timber products into other timber products, not just timber and timber products into wood products. Beginning July 1, 2007, a surcharge of 0.052 percent is added to fund a new Forest & Fish Support Account to implement the Forest & Fish Report and related activities. This surcharge is suspended if it generates more than \$8 million in a biennium or the federal government appropriates at least \$2 million for this purpose in any federal fiscal year. Taxpayers using the lower tax rate are required to file an annual accountability survey. The fiscal committees of the Legislature are required to study the effectiveness of the preferential tax rate and to report to the Legislature by November of 2011 and 2023.